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CORPORATE IMPACT INVESTING: A NEW PARADIGM FOR CSR?

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Abstract

This paper sets out the case for the use of impact investing as part of companies' CSR strategy, demonstrated by the term "corporate impact investing" or "corporate impact venturing". After an indirect analysis of global practices in corporate impact investment, it considers whether companies are interested in employing this innovative practice in their CSR strategy and how they could be incentivized to do so through direct research methods, with a focus on Europe. A survey answered by 116 company representatives reveals that companies are interested in impact investing yet the majority was not initially aware of its existence; therefore if the right incentives are put into place a new paradigm for CSR may arise.

Keywords: Corporate Social Responsibility, Impact Investing, Corporate Impact Investing.

Table of contents

Abstract

1. Introduction	1
2. Literature Review	
CSR 2.0 and Impact Investing	2
3. Topic Discussion	
Corporate Impact Investing	4
The Role of Corporations in the Impact Investing field	8
Challenges and Barriers to Corporate Impact Investing	8
Research Questions and Methodology	10
4. Findings and Recommendations	11
Are companies interested in embracing impact investing in their CSR strategies?	11
Barriers and drivers to corporate impact investing	17
Other findings	18
Conclusions of the research	18
Recommendations	18
5. Conclusions and Limitations	20
6. References	19
7. Appendix	22

Introduction

In the aftermath of the financial crises a revaluation of the financial and corporate world's contribution to the public good has started to take place. The disillusionment with the opacity of financial markets and the urge to adopt more sustainable models in every aspect of business and society has provided the catalyst for the adoption of a more transparent form of investment which yields not only financial but also social value: impact investing (Vaccaro, 2014). The term 'impact investing' was coined in 2007; the Global Impact Investing Network (GIIN) defines impact investments as "investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return." The character of intentionality exhibited by these investments differentiates them from socially-responsible investments, whose purpose is to avoid social or environmental damage, while still primarily pursuing profit. It is the broadest term used to describe the investment of assets (rather than grants or distributions) for communal change (Berliner & Spurr, 2013). Impact investments can be made in both emerging and developed markets and differ from grants in that they target a range of returns from below market to market rate, depending upon the circumstances, while grants have no expectation of a financial return. The financing instruments may include equity, debt, mezzanine and hybrid capital, whilst with the growth of the sector, instruments specific to impact investment, such as Green Bonds, Vaccine Bonds or Social Impact Bonds, are being developed (Schwab Foundation, 2011). Impact investments are rooted mainly in investments in microfinance loans, low-income housing developments or *cleantech* (clean technology) start-ups (Bridges Ventures, n.d.). Today, parallel to the innovations of its financial instruments, impact investments are broadening their scope and can prove to be fundamental in providing the scale-up finance to aid farmers' participation in international value chains or reduce recidivism among UK convicts. In 2010, J.P. Morgan and the Rockefeller Foundation labelled impact investing as a "new asset class", and estimated that the impact investment sector could potentially grow from US\$ 400 billion to US\$ 1 trillion by 2020 (J.P. Morgan, 2010). However successful so far, the impact investment market is still in its early stages and unfamiliar to many. Family offices, high-net-worth individuals and development finance institutions are so far the major sources for funds for impact investment managers and they only accounted for 2.5% of global asset ownership in 2011 (World Economic Forum & Deloitte, 2013). While institutional investors are becoming more and more relevant in the field, companies – despite their potential as providers not only of funding, but also of insider knowledge – remain overlooked in current literature. They are only marginally considered as part of the impact investment movement, even though numerous successful cases of corporations involved in impact investment are starting to emerge. At the present time, there are a number of corporations active in impact investing, whether by directly establishing an impact investing fund, supporting existing ones by financial or non-financial means, or investing in innovative organizations that also bring an added value to society and the environment. Impact investing can represent a great opportunity for corporations, especially if combined with their venture capital, to scale-up their CSR activities while seizing strategic opportunities for their business.

The purpose of this project is to evaluate the involvement and the interest of companies in integrating impact investing in their CSR programs, especially by practicing what can be defined as “corporate impact venturing” or “corporate impact investing” (Martin, 2014b; Beyond Philanthropy, 2014). Through this analysis, this paper will also aim to identify the barriers and incentives for corporate impact investing, in order to find mechanisms that may lure more companies into embracing impact investing as a way to “upgrade” their CSR strategy. In order to do so, this paper will use primary and secondary data. The primary source of data will derive from a qualitative survey for employees of companies that have and do not have impact investing programs, in order to understand what could facilitate and foster the participation of their companies in impact investing ventures. The secondary source of data will consist of an analysis of reports and studies about the field. Several sources were used such as independent research, companies’ websites and press releases that give information on current impact investing efforts undertaken by corporations. Since literature on the subject is very scarce, incomplete and not uniform, an analysis of current trends corporate impact investing will be performed before presenting the survey, in order to reinforce the basis on which the survey is designed.

Literature Review

CSR 2.0 and Impact Investing

Corporate social responsibility, defined as the way business creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement, is considered to have not been effective enough in the past years (Blowfield & Murray 2011). Emblematic, and still up to date (Visser, 2014) is the statement Paul Hawken made in 1994: “if every company of the planet were to adapt the best environmental practice of the leading companies, the world would still be moving towards sure degradation and collapse”. Most sustainability and responsibility programs within companies have been about defensive strategies rather proactive ones; more about selective and compartmentalized programs rather than holistic and systemic change (Hollender & Breen, 2010). Shortly, there is little doubt that the “do no harm approach” to CSR is no longer sufficient (Louche & Dodd, 2009). There is a compelling need to move beyond this approach in order to embrace a more strategic perspective on CSR, where innovation and creativity are key components (Roome, 2006). Nowadays several authors are pleading for and envisioning a renewed holistic approach to CSR, referring to this turning point such as “CSR new deal” (Martin, 2013), “CSR 2.0” (Visser, 2014), or calling for an innovative approach to CSR (Louche *et al.*, 2010) or a strategic one (Chandler & Werther, 2014). All of these approaches envisage a new paradigm for CSR, as it moves away from being an area of marginal interest, towards becoming a mainstream activity. This new paradigm expects companies to seek suitable strategies and find new ways to respond to the challenges implicit in addressing social issues as part of entrepreneurial practice. Business creativity needs to be directed to solving the world’s social and environmental problems, and to do so, paraphrasing Einstein, “it is not possible to solve today’s problems with yesterday’s thinking”: all the authors

emphasize the need for innovative partnerships and business models, greater transparency in sharing critical intellectual resources, and a greater effort in contributing to the “new-wave” social entrepreneurship movement that has been emerging in the last years. Scalability and circularity are also crucial in this new vision for CSR, as in most cases even the most sustainable projects and ideas are not enough since too few of them ever go to scale, and circularity can at least avoid that the best sustainable projects are limited as limited is their funding. (Visser, 2014). While Visser generally predicts that in the future of CSR “Investments in self-sustaining social enterprises will be favored over check book charity” , Martin clearly points the finger to impact investing when calling for proactive strategies and investments in growing responsibility markets, to exploit what he identifies as “social corporate opportunities” to create shared value. In this context, impact investing emerges as one of the “innovations” for companies to take their CSR efforts to the next level. Impact investing can provide companies with opportunities such as accessing the \$5 trillion Bottom of the Pyramid markets (Bop) and the \$546 billion emerging virtuous or “LOHAS”¹ consumer segment, tapping opportunities in the green economy and those arising by the erosion of the welfare state (Martin, 2014a). Together with the use of corporate venture capital, impact investing has the potential to enlarge the spectrum of returns to a financial, social, environmental and strategic dimension (Beyond Philanthropy, 2014) A Survey of 1,000 executives run by the UN Global Compact and Accenture in 2013 found that 37% said the lack of a clear link to business value was a critical factor deterring them from further action on sustainability (Financial Times, 2014), a number that doubled from pre-crisis levels; if managed properly, impact investing could therefore represent a great incentive for companies to upgrade their CSR efforts while creating business value, resolving the growing concern of business leaders towards the *financial sustainability of sustainability*. The shift of CSR from tradition towards social innovation can no longer be ignored, and concepts like the circular economy, or collaborative consumption are challenging existing business models (SustAinability, 2014) Corporations need to move CSR to the core of their business, and as this shift happens investments and capital flows will also shift, making the case for the opportunity presented by impact investing (Volans, 2014). So far, six sectors have been identified as being the most suitable for impact investing deals involving corporations: *cleantech* (clean technology), education, health, urban infrastructure and transportation, financial inclusion and agriculture and food (Volans, 2014). Of course there are several fallbacks to be careful about, as with every emerging field. The main critics focus on how impact investing could “cannibalize” resources from donations to loans leaving some charities out of the game, or are sceptic on the intent of achieving impact together with a financial return in countries where financial return alone is hard to achieve for any business (Starr, 2012). However the capital available to grant-making is limited, and therefore it makes sense to fully seize those opportunities that are able to generate a return since they respond to a market-based solution, in order to protect the pure grant-funding for those challenges where there is no market-based

¹ Lifestyle of Health and Sustainability

solution (Volans, 2014)². In this light, the activism in impact investing from the side of corporations seems even more important, especially when paired with corporate venture capital to increase the sustainability of business models or take advantage of the companies' resources to amplify their impact. In this way corporations are in the best position to exploit market-based opportunities embedded in their business to achieve impact and sustainability without recurring to the capital allocated to grant making, which can be spared for those project that can't generate a return but are equally important.

Topic Discussion

How corporations can seize the impact investing opportunity: corporate impact investing

Impact investing can represent a great opportunity which can be seized in different ways. Up to date, matching corporate venture capital with impact investing is one of the successful formulas for corporations to manage their impact investments, from which the terms “corporate impact venturing” or “corporate impact investing” used to define this phenomenon. Traditional corporate venture capital invests in businesses using funds allocated by the parent company, taking into account financial returns as well as the strategic relevance of the investee and more “intangible impacts” that may result from the deal; in addition it can provide its investees non-financial support, in terms of expertise or access to market distribution channels. The investment structure may vary, being on a direct level or through other funds. Corporate venture capital can thus be declined in “corporate impact capital” by prioritizing the social and environmental dimensions of the deals over the financial returns.

Examples of successful implementation of impact investing programs managed by corporations can be found in several corners of the world, and multinational corporations headquartered in OECD countries are leading the way. In order to have a picture of the state of art of corporate impact investing, and the forms it can be implemented in, a sample of impact investing efforts by 31 companies has been analyzed. Data has been drawn from current literature, press releases, and the companies' websites. The companies have been chosen by their relevance and presence in the current literature as case studies. After a careful comparison, taking into account the characteristics of the existing programs and funds, several conclusions can be drawn on the reality of corporate impact investing today, which are summarized in the following paragraphs.³

There is no ‘one size fits all’ for corporate impact investing, and in the future it is likely that more and more innovative models will be developed. Insofar the main ways companies participate in impact investing deals are:

² From an interview to Martin Rich of Social Finance UK.

³ See Table 1, Appendix

A. By establishing their own impact investing fund. Companies like Schneider Electric in 2009 and Danone in 2005 established their own impact investing funds. The Schneider Electric Energy Access Fund (SEEA) fund was inaugurated with a capital of 3.5 million euro and a target return on investment of 5%, over a period of 5-7 years, in partnership with five development finance and impact investing organizations.⁴ Up to date, the fund invested 50% of its capital in Asia and Africa, and 35% in France. The SEEA policy is to participate with a minority equity stake in the ventures and ensure technical support to guarantee the maximum impact and return on the investment: Schneider Electric employees provide non-financial support through corporate volunteering (Schneider Electric, 2015). In the food industry, Danone, through its project Danone Communities established an Impact Investing Fund that invests in social ventures in France, Danone's home market, Asia, Africa and South America. This fund has been established as a "SICAV", an open-ended collective investment scheme, and anyone can financially participate in it, as it is commercialized by an asset manager and a French bank (Danone Communities, n.d). This *modus operandi* is similar to the one of the Pearson Affordable Learning Fund, which invests with minority stakes in African education ventures, and is also open for external investors: education giant Pearson invested \$ 15 million in its fund, and now is aiming at raising up to 80 million in capital for it (Pearson, 2015). By establishing their own fund corporations can cooperate with other stakeholders in strategic issues for their business, gaining visibility and increasing their impact by seeking external investors in their funds or be able participate in several ventures with an equity stake matched by technical support to ensure the success of the investment.

B. By investing through their VC arm. Technology companies, like Google, Intel and Cisco are among the most active when it comes to venture capital deals, and impact investing as well. Google Ventures, Google's venture capital arm, has invested so far in 300 companies among which those that generate impact in the fields of health, education and urban infrastructure, backing their investees with support in design, engineering or marketing (Google Ventures, 2015). Intel, which closed 146 VC deals in 2013, the highest number globally, also invested in education and clean energy, similarly to Cisco (Volans, 2014). A different example is Adidas, that launched Hydra Ventures in 2011, its corporate venture arm, that makes seed investments in apparel brands and sports-related areas. The investment criteria are mainly financial, but they take into account the environmental sustainability and social performance record of investees. In 2013, Hydra Ventures invested nearly \$1.8 million in CRAiLAR Technologies Inc., a company that provides sustainable, environmentally friendly fibers and fabrics that can be used in Adidas production processes (Hydra Ventures, 2015). Similar is the case of IKEA, who invests in companies able to provide innovative solutions that can be integrated in its supply chain and operations. Most of these VC investments are not showcased as CSR practice, but these are rather functional to increase the overall sustainability of their businesses.

⁴ These are : EcoFI, SIDI, TechDev, Investisseur & Partenaire and Phi Trust.

C. By investing in selected projects on a case-by-case bases. This approach to impact investing is mostly used by companies who operate through their foundation or clearly showcase impact investing as part of their CSR strategy. Examples include Shell and BMW that through their foundations support a wide array of projects with strong emphasis on the social returns obtained. Starbucks also invests *ad hoc* on projects that have an impact on its supply chain, as part of its sustainability strategy. This approach demands less resources to be deployed, but may also be less relevant for the business strategically and from a visibility point of view.

D. By investing in new product development. Instead of investing in projects that have been developed externally to the company, companies can invest in the development of products or services that are beneficial for society and the environment as part of their business lines, renouncing to a part of the financial returns they could otherwise generate in more profitable but less sustainable projects. An example is Sanofi, that together with the World Health Organization and other pharmaceutical companies developed the medicine NECT, to fight a deadly disease that kills thousands in Africa, in order to make the cure accessible to many. The approach adopted to Sanofi was “no profit, no loss”, therefore obtaining returns well below market rate but gaining in access to new markets and brand reputation, according to the company (Martin, 2014b).

E. By Providing non-financial support in existing ventures. Companies that do not want to commit financially, can still participate in impact investing ventures by providing non-financial support. Even though they do not invest financially, participating through expertise implies an investment in terms of other resources, such as employee time, and therefore can be considered a form of participation in impact investing.

F. By using impact investing instruments to finance their own sustainable projects. Impact investing is not a one-way road: it allows companies to also raise money to invest for in-house sustainable projects and products. Such is the case of green bonds through which several corporations have been able to raise funds from socially responsible investors: examples include electric utility company GDF Suez (for renewable energy projects), Toyota (to award green vehicle loans) and Unilever (to build energy efficient factories), TD Bank (to issue green loans) (Puppala, 2014). The largest issue to date was a €2.5 billion offering in May 2014 by GDF Suez, which was three times oversubscribed, and in 2015 the market is expected to reach \$100 billion (Bloomberg, 2014).

Based on the data above a matrix has been developed in Image 1. The matrix classifies the different forms of impact investing according to the commitment they require from the company and the strategic relevance they hold for the business. Finally colors have been used to classify whether these practices are fully part and showcased as CSR policies or are of competence of other departments or areas of the companies, such as venture capital.

Corporate impact investments are aligned with the company business strategy, whether to improve access to emerging markets, invest in promising companies that create shared value or innovative solutions that increase sustainability of the supply chain or operations of the company. An example on how impact investing

can improve the cost-effectiveness and environmental sustainability of its supply chain can be found in the venture between Nike and IKEA Green Fund, who invested in Dye Coo Textile Systems, a process that eliminates chemicals and water from the textiles dying process and reduces energy uses (Volans, 2014) or IKEA and Adidas, who invest in companies that develop sustainable solutions in *cleantech*. *Cleantech* is indeed one of the major areas of investment, while other important areas of investment are health, education, community development, financial inclusion and urban infrastructure and transport, as anticipated. For what concerns geography and markets, many companies like Morgan Stanley, Vodafone or Danone invested in solutions that improve access and deliver innovative solutions to customers, distributors, or suppliers in emerging markets, but several ventures were also developed in other markets, especially the home one in Europe or US, demonstrating that impact investing can be beneficial in all kinds of economies.

It is a recent phenomenon, and a developing one, indeed all the corporate impact investing practices analyzed are not older than 15 years, with many being established in the last five years, especially for what concerns more and more specialized impact investing funds and programs, indicating a progressive professionalization of the sector.

Non-financial support is as important as the capital invested; all companies, when investing, provide some kind of technical support to their investees, and this can be considered the real added value of corporate impact investing. Only companies can provide the skills and networks to ensure the success of the programs they invest in, especially in emerging markets. As an example, Unilever together with Acumen and Thardeep Rural Development Program participated in the incubation of Micro Drip, a for-profit business providing affordable irrigation systems for smaller farmers in rural households in Pakistan (Koh *et al.*, 2012). In addition to the pilot funding, Unilever is also offering supply chain, sales and brand management expertise. In March, 2015 Schneider Electric through its fund announced to participate with a minority stake in the Energy Access Ventures Fund, in partnership development finance institutions. In this joint venture, Schneider Electric's non-financial support has been fundamental, as it provides skilled professionals via its operations staff to support local businesses and share their skills to reinforce existing human capital (Proparco, 2015). Alike the case of Schneider Electric, also Danone matches the financial support with the company's know-how and other resources. In the case of "La Laiterie du Berger", a milk-producing farm Danone invested in 2008, Danone Communities provided support with its distribution networks and a cross-departmental team to follow its business development.

Partnerships and collaborative models are crucial; Intel Capital also partnered with development finance institutions to develop *cleantech* solutions, investing together with the International Finance Corporation in Altobridge, a leading provider of solar-powered 3G solutions to remote communities, helping increase economic growth (Reuters, 2015). It is common as well to see companies working together: interesting is the case of Total and Peugeot who under the leadership of French Railway company SNCF gave light to *Ecomobilité*

Ventures, a venture capital fund to invest in innovative ventures in order to develop sustainable solutions for urban mobility. Partners to impact investing ventures involving corporations include the academia, government, NGOs, social enterprises, and financial institutions, apart from other companies and impact investing funds. Impact Investing triggers also intra-company synergies, as in the case of General Electric whose *Healthism* project has been conceived by the GE Ventures, GE Healthcare and the GE foundation. Image 2 provides an overview of the corporate impact investing ecosystem.

The role of corporations in the impact investing field

In 2013 globally \$ 48.5 billion have been invested in venture capital deals, while that number rose to \$ 86.7 billion in 2014, the highest investments mark since 2000 as the deals are growing, especially in emerging markets (Ernst & Young, 2015). On the other hand, in 2013 The Fortune 500 Global Companies spent a total of \$ 20 billion a year on CSR (UNESCO, 2015). Unlocking part of this capital combined for impact investing could give a boost to the field, but it may not be a game-changer, if looking at capital potential alone; the cost of solving problems such as water scarcity, climate change and lack of access to healthcare, education and affordable housing runs into the trillions of dollars (Rodin *et al.*, 2014). Jeffrey Sachs, in the book “The end of Poverty” calculated that the total cost per year just to eradicate poverty from the world would be about \$175 billion. Private capital is critical to addressing this need of resources, and intentionally investing for both social impact and financial return provides a way to engage that capital, but clearly corporations are not decisive in providing the capital needed; rather what they can be crucial in is in creating shared value providing know-how and advancing technology. Investor capital is limited in the sense that it may be unable to improve the investee skills and networks to meet the requirements of profitable business models, like for example support their investees in building a customer base, especially in BoP markets (Koh *et al.*, 2012). Corporations therefore can be crucial in advancing sustainable solutions to solve today’s pressing issues such as poverty or climate change. In order to do so, they first need to become truly sustainable corporations, which activities do not cause harm in the first place. Impact investing can help them achieve this goal by providing a framework through which invest for change, within their operations and in the markets in which they operate. On the other side, the involvement of corporations in impact investing deals is fundamental to achieve the greatest impact in an efficient way, as they hold already the experience and the means to upgrade and bring to scale the work of emerging innovative ventures by means that no other actor in the field may be capable to. It is important thus to fully involve companies in the field, disregarding the capital and the resources they may have to invest. Today most of the companies involved in impact investing are very big multinational corporations, but smaller companies may contribute as well, even if in different ways.

Challenges and Barriers to Corporate Impact Investing

If companies can be very important players in the impact investing arena, it is also important to ensure their cooperation and involvement. However, the impact investing sector is new, and is faced with several challenges which may hold back the private sector from further engagement. The main obstacles impact investing is facing, and can restrain its potential to scale-up are several, among which: the absence of a successful track record in the sector, an insufficient number of actors fully involved and highly competent, scarce availability of the adequate investment products, underdeveloped impact measurement and rating systems and difficulties in finding the more appropriate investment opportunities (Martin, 2013). The insufficient absorptive capacity for capital has received particular attention in the current literature, and seems to remain a major challenge for the investors, especially when it comes to inclusive business whose activities are socially beneficial to the Base of the Pyramid households (Koh *et al.*, 2012; J.P Morgan, 2010). This should represent less of a concern for corporations, as they hold better tools and know-how to find, create or scale-up the right businesses, but it will be tested further in this paper. In addition, the lack of enabling infrastructure and efficient intermediaries prevent people to identify themselves as part of a cohesive industry, since the market is structured around two historically separated worlds, philanthropy and investment (Freireich & Fulton, 2009). This may be reinforced by the novelty character of impact investing and lack of awareness about its real potential that will be as well tested in this paper.

While the obstacles related to the external environment have been directly identified in the literature, those internal to the company related to the participation in impact investing ventures may be harder to classify. Considering that adopting impact investing implies an innovative CSR approach, the internal barriers may be identified with those of adopting innovative CSR strategies, and thus can be summarized as: CSR are operations not embedded in the company's core activities and therefore are marginalized, the lack of adequate human or financial resources dedicated to CSR and innovation in general, the scale of operations and size of the company, company culture, or the lack of an internal structure flexible enough to innovate. (Louche *et al.*, 2010). The mindset of the top management and the pressure to achieve short-term results rather than having a long-term strategy may also affect the willingness of companies to embrace innovation (Garvin, 2006). Different cultural expectations may also further influence the firms' operating environment and the willingness of companies to embrace innovations. Differences are stark even within the developed world, and within Europe (Chandler & Werther 2014). Perhaps it is most evident in the different regulations, that may foster or obstruct the companies' interest to impact invest. France and India, as an example, have adopted recently a progressive regulation on respectively socially responsible investment and CSR, and it will be interesting to see which impact it will have in the future. The industry a company belongs to can also affect the interest in impact investing, as different industries evoke different stakeholders' emotions, and CSR thresholds - the point at which CSR becomes a necessary component of strategic success – vary across industries. This means that some industries will be more prone to innovate and to implement seriously their CSR efforts. Some example of low CSR threshold industries

may be consumer goods or utilities (Chandler & Werther, 2014). It is therefore reasonable to expect a higher number of companies operating in low CSR threshold industries and responding to many stakeholders committing to impact investing. Finally, from the analysis of Table 1 emerges how the size of corporations can play a significant role, as among the analyzed companies only two had less than 10.000 employees. However, it may be interesting to explore further if also smaller companies may be interested in impact investing, even if with a more marginal role.

In order to understand the mechanisms needed to take corporate impact investing to the next level and prioritize actions, the most pressing challenges to its development need to be identified. As there is no literature on the specific challenges of corporate impact investing, further research is needed, and will be presented in the next section.

Research Questions and Methodology

The main aim of this paper is to assess whether companies are interested in impact investing and what the mechanisms are that may increase companies' participation in the impact investing field. In order to investigate, the following research questions and subsequent points of interest will be considered:

1. What is the interest of companies in embracing impact investing as part of their CSR programs?
 - a. Do companies know about the possibility of impact investing?
2. What are the mechanisms that may help companies to integrate impact investing in their CSR programs?
 - a. What are the main challenges and barriers facing companies when thinking of impact investing?

In order to investigate the potential interest of companies in impact investing and to further verify the statements and analyses of this paper, a survey with 18 questions will be collected from 130 respondents. The survey will collect data regarding the size of the company, the country of origin, the scope of its CSR activities and the industry to which it belongs. The respondents will then be asked whether they know about impact investing and if their company is involved in any impact investing program. At this point, the following aspects will be questioned:

- Whether the respondent finds that impact investing could be worthwhile for their company and why;
- What the barriers holding companies back from impact investing are and whether they are internal or external to the company, as considered in the preceding section;
- The future intentions of companies; in which way they would prefer to impact invest and with which partner or supporting organization.

Additionally, if the company interviewed already has a corporate impact investing program in place, the survey will redirect the respondent to a different set of 6 questions in order to validate the data on the current trends in impact investing. These questions will further investigate the following:

- Where the expertise came from;
- The willingness of companies to share their experience in impact investing;
- What companies consider to be the key benefits of impact investing;
- If they plan to continue to impact invest in the future.

The function of these questions will be to determine how more companies can engage with impact investing and what mechanisms need to be established in order for corporate impact investing to flourish.

Sample and Procedures

The target population for this study featured companies with an interest in CSR or which have a CSR policy in place and therefore have the potential to include impact investing in their CSR practices. Worldwide, the number of companies which adhered to the UN Global Compact is 8,000 (UN Global Compact, 2015). It therefore seemed reasonable to take a similar number for the population estimate. Since the population is very broad and difficult to represent, the best sampling method for this paper is convenience sampling: the surveys were sent to CSR managers and representatives of companies that attended the 2015 European Multi-stakeholder Forum on CSR hosted by the European Commission. The forum counted with 450 participants, including companies from all over Europe, the US, Japan and other OECD countries (European Commission, 2015). From the list of participating companies and their representatives, 210 were asked to complete the survey. The survey was also sent to other 40 companies through personal and direct contacts. All contacts were managed carefully in order not have duplicate answers from the same company. During a period of 45 days, a total of 130 responses were collected, of which 116 were completed thoroughly. The output has been analyzed through the statistical software SPSS through univariate and bivariate analyses. Additionally, the findings were discussed with four high-level employees from companies of the like of Accenture and Allianz.

Findings and Recommendations

The survey collected answers from 78 employees working in CSR, representing 60% of the sample, 15 working in business development, 13 executives, 8 working in communication or marketing departments and one each coming from venture capital, human resources and corporate governance departments. Four answers were not admissible, since the respondents indicated their industries instead of their position within the company. The sample included 38% of companies with less than 3,000 employees, while companies with more than 3,000 employees are the 69,2%. Responses were collected from companies with headquarters in 26 different countries: Albania, Angola, Australia, Austria, Belgium, Denmark, Finland, France, Germany, India, Ireland, Italy, Japan,

Kenya, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovenia, South Korea, Spain, Sweden, Switzerland, United Kingdom and the US. Among these the most frequently represented are, in descending order: Italy, the US, Portugal and Belgium with 13, 12, and 10 answers registered respectively. Out of the 116 answers completed, 90 were from companies with headquarters in European countries, thus the results and recommendations are particularly focused on Europe. Finally, 19% of the answers were from companies who are already involved in an impact investing venture.

Are companies interested in embracing impact investing in their CSR strategies?

There is low awareness about impact investing

From an initial look at the survey results, the first striking outcome is that 57% of respondents had never heard of impact investing. A further cross-tabulation analysis was needed in order to estimate if this may vary based on company size or location by country.

Representatives of companies with more than 10,000 employees were more likely to have heard about it, with 58% answering yes. The corresponding Cramer's V test found a significant relationship, at 0.05 level of significance since the p-value < 0.05 ($p = 0.01$) and the coefficient value is $V=0.375$ so that $H_0 = \text{the relationship is not significant}$ can be rejected, and it can be concluded that company size and level of awareness are moderately related. When examining results across countries, as there are 26 countries represented, there is not data significant enough to draw conclusions. However, France, Netherlands Switzerland and Sweden stand out as having a higher number of respondents who knew about impact investing – all countries that rank among the highest in the HDI⁵ in Europe (UNDP, 2014). However, as the number of respondents per country is very low, it is not possible to draw any conclusion on this aspect. Finally it is interesting to note that those who work in CSR positions had the highest percentage of 'yes' when asked if they knew about impact investing (50% of the answers from CSR employees), whereas among executives only 16% of them answering positively. When asked how they heard about impact investing, 'professional reasons' was the modal response, with 36% of the answers; this was followed by 'thematic events' (23.6%) and 'study programs' (21.8%). 'On the news' was quoted as a source by only 12.6% of answers, and 'social media' and 'word of mouth' each total 3.6% of the response.

Lack of awareness is the first obstacle to overcome when aiming at the development of the corporate impact investing movement. Outside of the professional world and classrooms, there may be not enough interest around corporate impact investing for it to catch the attention of all its potential adherents. Events can be an effective way of spreading the word and presence on the news should be intensified. Company size seems to have

⁵ Human Development Index

a significant role, as anticipated. Awareness and interest in impact investing may be further strengthened depending on the country, but this should be further researched.

Companies are interested in impact investing

Among the respondents who had never heard of impact investing, when given the GIIN definition, 64% percent said it could be interesting for their company's CSR.⁶ Furthermore, the bigger the company, it seems the more likely it will be interested: 72% of the companies who declared that they were involved in an impact investing venture had above 10,000 employees, confirming the above anticipation that size of the company may correlate with interest in impact investment. However the Cramer's test gave a p value > 0.05 , ($p=0.462$) meaning there is no statistical relationship between the two and $H_0=the\ relationship\ is\ not\ significant$ is accepted: interest in impact investing does not depend on company size. Companies in industries such as IT and Telecommunications, energy, manufacturing, food and water, health and financial services were those more likely to be interested in impact investing, with over 70% of the respondents in these industries claiming to be interested, whereas companies operating in consulting, infrastructure and retail seem the least interested, counting globally for less than 30% positive answers. However, this cannot be concluded as there is not a statistical relationship between the variables when performing the Cramer's V test ($p=0.161$ and therefore > 0.05).

Companies are interested in impact investing. Yet though the findings are generally in line with the previous assumptions regarding the importance of company size and industry, these are not confirmed. Even if in a small percentage, smaller companies also expressed some interest in impact investing, meaning that they too could potentially be engaged, together with companies from the more diverse sectors.

It is reasonable to expect a growth trend in corporate impact investing in the future

When asked if they planned to start using impact investing in their CSR activities, 32% of the companies surveyed declared that they plan to start using impact investing as part of their CSR strategy, while 37% declared the opposite, and 9,2% were not sure. The remaining answers were from companies who are already involved in impact investing: 56% plan to increase their impact investment budget; 26,1% plan to continue with the same budget and only 8,2% want to decrease the resources channeled to impact investing. Again, larger companies appear more likely to integrate corporate impact investing in their activities. In this case, the Cramer's V test confirms the relationship between company size and future intentions, with $p=0.03$ and therefore <0.05 and

⁶ GIIN Definition: "Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances." A typical example may be an energy company investing in clean energy solutions in the developing world, or an apparel company that invests in start-ups that develop clean technology for its production processes.

Cramer's V coefficient of 0.32 so that $H_0 = \text{the relationship is not significant}$ is rejected: larger companies are more likely to be planning on starting corporate impact investing in the future.

In the future, corporate impact investing can be expected to grow, though this will most likely begin with large companies. The fact that the majority of companies involved in impact investing are planning to increase their commitment to it may indicate that it is a successful solution for the companies' CSR strategy.

Barriers and drivers to impact investing

Barriers and challenges to impact investing vary, but reflect those identified in the literature

In the survey respondents were asked to identify the main reason they were not involved in any impact investing venture, from external (related to the impact investing field) and internal (related to organizational issues) points of view. The options were given in reference to the challenges presented on pages 8 & 9 of this paper. The 'lack of successful case studies in the impact investing field' was one of the main reasons appointed, together with 'lack of appropriate investment opportunities', accounting for respectively 31% and 21.7% of the answers. The rest of the answers were chosen by a percentage inferior than 10% ('uncertainty about impact measurement', 'immature regulatory framework' and 'absence of organizations to refer to'), while 27% declared that they did not practice corporate impact investment due to internal reasons. Regarding these internal reasons, 'lack of financial and human resources' obtained the highest percentage of responses (32% altogether), followed by the 'marginal importance of CSR in the company' (16.8%) and 'not a top-management priority' (14.5%). However, when analyzing through cross-tabulation with the company size, it is interesting that none of the companies with more than 10,000 employees indicated 'lack of financial resources' as a concern, and companies with fewer than 3,000 employees represent 81.3% of those that indicated the lack of financial resources as their main obstacle to impact investing. Larger companies indicated 'lack of human resources and internal expertise' together with external reasons as their biggest concerns. A Cramer V test confirms the relationship between these two variables, with a p-value of 0.008 and < 0.05 and Cramer V coefficient value of 0.409 so that $H_0 = \text{the relationship is not significant}$ is rejected and the correlation is moderately strong.

Once again company size plays a significant role in the results, which may indicate that different mechanisms and different engagement models need to be put in place, depending on the company. For larger companies, the main concerns are tied to the impact investing field itself, as well as lack of expertise regarding impact investing. As may be anticipated, smaller companies lack the essential financial resources needed to approach possible CSR strategies appropriately; the contribution that they can make to the field is related mainly to non-financial support, and this has been confirmed also in the face-to-face interviews.

Companies are primarily attracted by the possibility of generating financial returns, but underestimate the opportunity to increase the sustainability of their business models

When asked what outcome of impact investing is most desirable, 51.3% indicated ‘generating financial returns while having a positive impact on society’, while 25.6% chose ‘integrating new sustainable business models’, 17.9% ‘access to new markets and opportunities’ and 5.1% ‘recycling the capital to achieve increased impact’. Among companies with global CSR activities, 38% indicated ‘access to new markets and opportunities’ as the most desirable outcome. Contrastingly, among companies with CSR operations in Europe, 58% are interested in ‘generating financial returns while having a positive impact on society’. ‘Access to new markets and opportunities’ was interesting only for 8.3% of the respondents with CSR operations limited in Europe.

Furthermore, companies with impact investing programs in place have been asked what the main benefit was that impact investing was bringing to the company; 70% indicated “the increased sustainability of the companies’ business model” and 43% ‘keeping CSR as an asset rather than a liability by generating financial returns’. ‘Improved access to new markets’ and ‘increasing impact’ were of less interest, both being of interest for 30% of participants.

When thinking of impact investing, the companies’ main focus is not on the impact but on the business or financial value the company can attain *while* pursuing impact. This result – together with the higher number of companies concerned with the lack of successful case studies and the few with impact measurement in the sector – highlights how the “business case” of impact investing should be further promoted and showcased. The possibility to increase the sustainability of the business model should also be highlighted, as at first it may be an ‘intangible’ outcome. Finally, companies operating in different geographic scopes may have different objectives and need different approaches to impact investing. This, however, should be further investigated.

Other findings

All kind of companies are interested in providing non-financial support in impact investing ventures

All the companies surveyed (aside from those who already had impact investing programs in place) were asked in which way they would prefer to approach impact investing. The majority, 70%, want to contribute to an existing venture with technical support and insider knowledge. A further 40% indicated that they would prefer to invest independently in an existing venture or organization, while overall 35% were interested in setting up their own impact investing fund, of which 15% independently and 20% partnering with others. Few were interested in participating with a stake on other funds, precisely only 2% with a majority stake and 15% with a minority stake.

Setting up an independent impact investment fund requires more resources if compared to the other *modus operandi* and participation through non-financial support or in *ad hoc* projects may be the best way to approach the impact investment field. This may also facilitate the involvement of a broader range of companies at a first stage. A CSR manager interviewed for the purpose of this project indeed revealed that after providing

consulting support to the implementation of the first SIB in Portugal considered internally if to invest as well financially in the project.

Partnership and external collaborations are very important

The 73,9% of companies involved in impact investing declared that the knowledge to implement programs was sourced both externally and internally to the company (56.5%), or just externally (17.4%). In addition, when asked who they would partner with if they had in mind to start or collaborate in an impact investing venture, 35% indicated ‘a foundation’, 33% ‘another company’, 15% ‘a financial intermediary’ ;a ‘consultants in the field’ and ‘impact investing funds’ received only 10% and 6% of the answers respectively. A positive signal was given by the fact that 91% of the companies who started the impact investing journey claimed to be available to share their experience through mentoring and networks.

The importance of partnerships and external collaboration is confirmed and the willingness of companies to share their experience can be very precious in helping other companies to do the same, especially considering that many companies expressed the desire to work with another company. Foundations have an important role as they are relied upon, while the low number of answers pointing at impact investing funds may be related to low awareness about their work.

Conclusions of the research

Lack of awareness is the first obstacle to overcome when aiming at the development of the corporate impact investing movement, but companies seem to be interested in it. Larger companies (more than 10.000 employees) are more aware of impact investing and more likely to set up an impact investing fund in the future, but company size does not affect the initial interest in impact investing. For smaller companies the main concern is lack the financial resources, whilst larger companies are more concerned with being presented with success cases and investment opportunities, and need more specialized expertise. The “business case” for the use of impact investing should be further promoted. Companies could approach impact investing by at first providing non-financial support and investing in small projects, and then scale-up their efforts by investing in the most suitable way according to their strategy, resources, industry and impact ambitions.

Recommendations

The survey analysis outputs sets the ground to identify the steps the actors in the field can take to involve more companies in this emerging movement, in the short, medium and long term.

Short-term

Raise awareness and promote success stories: the first obstacle to overcome is the lack of awareness about impact investing. Every company should be informed about it and the added value it can bring to companies’ CSR strategies. Several actors can contribute to achieve this goal:

- Educational institutions are important in sharing knowledge through research, educational programs and promote conferences and events on corporate impact investing; professionalizing courses could be created so that companies can tap into a pool of talented candidates that are able to bring expertise to companies;
- Foundations and impact investing funds should increase contacts with the press and organizing thematic events on impact investing, calling for companies to participate and showcase their positive experiences. An annual prize could be attribute for the best impact investing deals in each country.
- Governmental organizations have also the role of promoting and supporting impact investing, and some are starting to do so: as part of its G8 presidency, the UK government held a one-day forum and launched the G8 Social Impact Investment Taskforce, advised by National Advisory Boards in each country (Rodin & Brandenburg, 2014). In addition, international development agencies and chambers of commerce could be particularly appropriate to share knowledge and information with their members.

Medium-term

Involve companies in impact investing networks: when talking about corporate impact investing establishing partnerships and sharing critical intellectual resources is very important. To maximize the absorption of capital and the success rate of impact investing ventures, it is important to match in the best way supply and demand. In order to do so, companies should be included in the existing impact investing networks, eventually creating a separate chapter on corporate impact investing. Indeed among the members of the GIIN, there are barely any companies, apart from financial ones⁷. The network should also be used to match companies with potential investees, and vice-versa, and share companies' experiences in impact investing.

Non-financial support should be leveraged: companies can be fundamental in supporting impact investing ventures with skills and networks and are willing to do so, and this should be employed as much as possible. Companies' volunteering schemes could be put in better use by dedicating some of that time in supporting and mentoring sustainable start-ups for example, and this is something that can be done also by SMEs (small and medium enterprises). This could represent a first move towards a more active participation of these companies in impact investing deals as showed in the results: the involvement through non-financial support of the companies may be an occasion for them to evaluate a stronger involvement in the deals.

Companies need to involve top-management and dedicate resources to pilot projects: to start ground-breaking projects within companies it is crucial that top-management and all departments are on-board, especially in those companies where CSR is of marginal importance. In order to do so, corporate impact investing needs to be approached and pitched not only as a CSR innovation, but as a strategic possibility that concerns the core of the business. However companies need to be aware that as any new projects a period dedicating to piloting

⁷ GIIN members: <http://www.thegiin.org/cgi-bin/iowa/network/members/index.html>

and testing the best CII approach for their specific characteristics, and therefore invest the relative amount of risk-capital without expectation of a return. Finally, they need to be well-aware of the importance of having the right partners and should think thoroughly when selecting them.

Long-term

On the policy side the right incentives need to be put in place: the right policies can make the difference in any field. The UK government, for example, has been very active in the promotion of impact investing by creating specialized agencies, like the aforementioned Social Investment Task Force. Another role of policy makers, apart from raising awareness as stated before, is finance the development of market infrastructure, create or fund incubators or destine development funds towards impact investing (Rodin & Brandenburg, 2014). In the first stage, companies may not be primarily concerned with regulations, but the long-term the right incentives on a “carrot and stick” level could make a difference. Tax incentives for companies who impact invest can catalyze interest around the movement. Also more regulation on CSR can be a buffer, such as the new EU non-financial regulation directive that requires companies with more than 500 employees to disclose their sustainability efforts.

Financial Intermediaries may facilitate the processes of establishing ‘corporate impact investing policies’ by providing specific financial products and support in the field; e.g the design of Social Impact Bonds or investment schemes specifically designed for corporate impact investment.

Conclusions and limitations

“We cannot solve our problems with the same thinking we used when we created them.”

Albert Einstein

Companies are at a cross-road regarding the way they need to define their CSR policy: after the 2008 crises the pressure to create shared and business value at the same time has increased. The initial defensive CSR policies implemented by the majority of companies are no longer considered sufficient, and some companies are starting to adopt proactive strategies like corporate impact investing. Corporate impact investing has the potential to provide a framework for change to companies in order to increase the sustainability of their business models and the positive impact of their operations, by looking at CSR as an ‘asset’ rather than a ‘liability’. This research found that companies today are not well aware of this possibility, although the interest is there. In the future it is likely that larger companies will increasingly take advantage of this opportunity, each one adapting it according to their resources and ambitions. Smaller companies may follow, especially by participating in impact investing deals through non-financial support. Non-financial support is indeed the added value companies can bring in the impact investing field, as they hold the expertise and the networks to ensure the success of the impact investing

ventures, and are willing to give such support. By providing expertise in impact investing deals companies can access the impact investing world without having to fully commit, and later consider more closely whether to scale-up their involvement. All the actors in the impact investing ecosystem, such as foundations, institutions, impact investors, financial intermediaries and policy-makers need to cooperate to advance the field and involve the maximum number of contributors, including companies. The new synergies brought forward by impact investing will give light to new collaborative models never experienced before, such as competitor companies working together by redirecting their business creativity at solving today's most pressing social and environmental challenges. Whether corporate impact investing will represent a revolution in business practice or it is a transitory phenomenon it is yet to verify. However, it does provide a framework through which business strategy and sustainability can be progressively merged together and where CSR can be proactively source of business value. This research found that companies seem to recognize this, leading to believe we are witnessing the rise of new paradigm in CSR.

Impact investing is a very recent topic, and not much literature is available on the subject, especially when related to companies. Therefore the added value and the final aim of this paper is, more than finding answers, to raise questions on corporate impact investing, indicating directions for future research and spotting possible trends. In order to do further research on the topic, a more qualitative approach with face-to-face interviews may lead to new findings and perspectives. Finally, the results obtained in this research are limited as the sample is relatively small for the broad and diverse population it aims to represent. For a more precise analysis, country-specific and industry-specific studies should be run and then compared.

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Appendix

Image 1- Forms of corporate impact investing Matrix

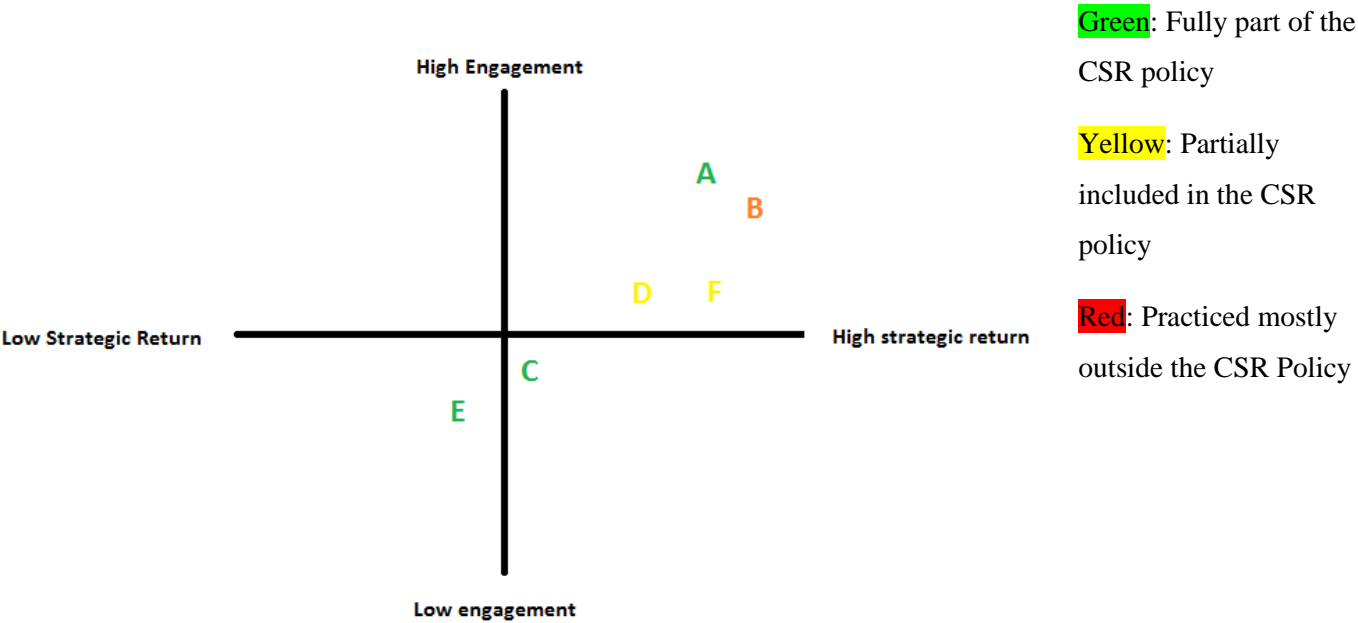


Image 2 - The Corporate Impact Investing Ecosystem

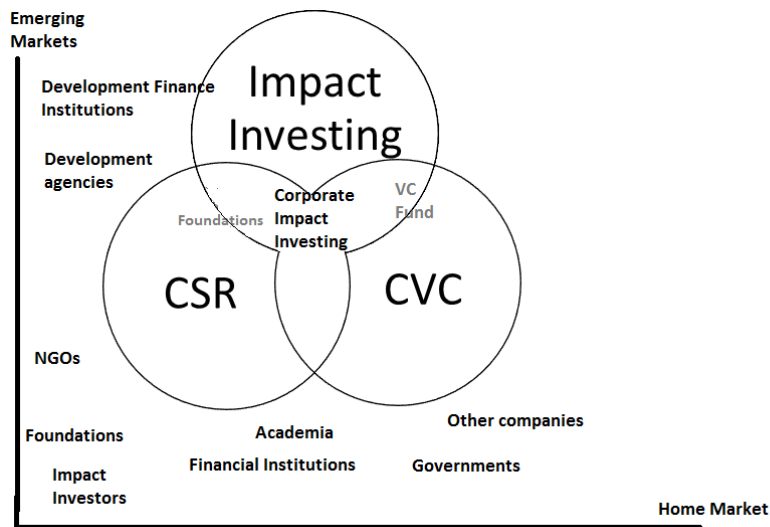


Table 1 – Analysis of the current corporate impact investing landscape

Company	HQ and n. employees	Industry	Form of impact investing	Sectors of investment	Markets of Investment	NF Support	Partners	First Project in:
1.Adidas	Germany 54,000	Apparel	Own VC fund Hydra Ventures	Apparel, sports – “sustainable Innovations”	North America and Emerging Markets	Y	NO	2011
2.Danone	France 100,000	Food & Agriculture	Majority equity stake (\$ 20 million) in SICAV Fund open to public through asset management firm	Sustainable farming, microcredit, local development	Developing	Y	Financial and Microcredit Inst., NGO, Academia	2005
3.Schneider Electric	France 130,000	Utilities	Own SEEA Fund (3.5 Million) that participates in projects through minority stakes	Access to Clean Energy, Jobs creation	Asia Africa, Home Market	Y	Development Finance and Microcredit Inst., NGOs.	2009
4.Google	US 54,000	IT	Own VC fund-Google Ventures	Health, Education, Urban Infrastructure and Mobility.	All Markets	Y	Other companies	N/A
5.Cisco	US 70,000	IT	Implement investments by solicitation of investees through the Cisco Foundation and VC deals.	Technology – based solutions for “Critical human needs” (Education, economic empowerment)	All Markets	Y	Other companies, NGOs, Microcredit Inst. Educational Inst.	N/A
6.Intel	US 90,000	IT	Own VC Fund-Intel Capital	Cleantech, Education, Urban infrastructure and mobility	Emerging Markets	Y	Other companies, Devel. Finance Institutions, NGOs, Government Org.	N/A
7.IKEA	Sweden 140,000	Consumer	Own VC fund-Ikea Green Tech	Cleantech - sustainability of IKEA business model	Home Market and North Europe	Y	NO	2010
8.BASF	Germany 112,000	Chemical	Selected VC Investments	Cleantech	US and Home Market	Y	NO	N/A
9.Nike	US 50,000	Apparel	Selected Investments integrated in supply chain, operations or products. Raise capital for impact projects by being listed in impact fund (Smartrust)	Health, Cleantech	Mainly Home Market	Y	Other companies	N/A

10.Comcast	US 136,000	IT and Telecommunications	Own VC Fund	Education	Mainly Home Market	Y	NO	N/A
11.Pearson	US 40,000	Education	Through Pearson Affordable Learning Fund (Initial \$ 15 M, scale up to 80 M) – Minority equity investments in for-profit companies	Education	Developing markets	Y	NO	2012
12.SAP	US 75,000	IT	Own VC Fund	Health	US	N	Other companies	N/A
13.Hitachi	Japan 33,000	IT & Infrastructure	Hitachi Foundation Investment Programs (Entrepreneurs@Work) and Tailored Innovative projects undertaken directly by the company	Health, Community Development	All Markets	Y	Government (Public Healthcare), NGOs, Social Enterprises	2010
14.Morgan Stanley	US 50,000	Financial Services	Direct Investments, leading influencer in impact investing	Financial Inclusion	Emerging Markets	Y	Development Finance Institutions	2013
15.Vodafone	UK 93,000	Telecommunications	Direct Investments	Financial Inclusion	Emerging Markets	Y	Microfinance Inst.	2013
16.Unilever	Netherlands 172,000	Food&Agriculture	Direct investments, raised money by issuing Green Bonds	Food & Agriculture, Cleantech	Emerging Markets	Y	Microfinance Inst., NGOs	N/A
17.Benesse	Japan 3,000	Education	Benesse Social Investment Facility (15 \$ m)	Education and Childcare	Emerging and Home Markets	Y	NO	2013
18.General Electric	US 307,000	Utilities, Healthcare, Transport	In company cooperation program between GE Ventures, GE Healthcare and the GE foundation to develop the “Healthimagination and Ecoimagination programs”	Healthcare, Cleantech	All Market	Y	Academia, Foundations, Government	2005
19.SNCF	France 100,000+	Transport	Fund established in partnership Ecomobility Ventures (€30 m) to invest in sustainable solutions and start-ups	Urban Infrastructure and Mobility (Sustainable Mobility)	Home Market	Y	Other Companies	2011
20.Orange		Telecommunications						
21.Total		Utilities						
22.Peugeot		Transport						
23.BMW	Germany 116,000	Transport	Through its foundation, BMW Stiftung Herbert Quandt which also promotes impact investing through events and publications.	Various	N/A	Y	NGOs, Networks	N/A

24.Toyota	Japan 333,000	Transport	Toyota Tsusho Africa Fund (23 m \$)	Cleantech, economic development	Africa	Y	N/A	2014
25.Starbucks	US 191,000	Food & Agriculture	<i>Ad hoc</i> investments	Sustainable farming, microcredit, local development	Supply Chain Countries	Y	Development Agencies	2013
26.Shell	Netherlands 92,000	Utilities	Shell Foundation <i>Ad hoc</i> investments under the new “ Enterprise – based model”	Cleantech, sustainable mobility, job creation, sustainable supply chain	Emerging markets	Y	Development Agencies	2003
27.Mitsubishi	Japan 350,000	Transport	Mitsubishi Corporation Disaster Relief Foundation (15 m \$)	Community Development and Job creation	Home Market	Y	Local Credit Unions	2012
28.Vox Global Japan	Japan N/A	Consulting	The Nippon Foundation established the Japan venture Philanthropy Fund (1.2 m \$) in Partnership with a Venture philanthropy Organization, and Vox Global provides pro-bono consulting in PR.	Education, Youth, Women, Community Development	Home Market	Y	Venture Philanthropy Organizations, and other firms providing pro- bono services	2013
29.Patagonia Works	US 2,000	Apparel, Food, Media	Established the 20 Million and change fund (\$ 20 m)	Cleantech, Sustainable supply chain	Home Market	Y	No	2013
30.BNP Paribas	France 185,00	Banking	Joint Venture - Domofinance Program	Access to energy, environment	Home Market	Y	Energy company (EDF)	2003
31. Sanofi	France 112,000	Pharmaceutical	Joint Venture to develop accessible medicines	Health	Emerging Markets (Africa, Asia)	Y	International Organizations, other companies	2011

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